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Annual Report 1980

Safeway Stores, Incorporated

80-13922

Executive Offices
Fourth and Jackson Streets,
Oakland, California 94660
(415) 891-3000

Transfer Agents
The Chase Manhattan Bank (National Association),
New York, New York and
the Crocker National Bank, San Francisco, California

Registrars
The Chase Manhattan Bank (National Association),
New York, New York and
The Bank of California, National Association,
San Francisco, California

Accountants
Peat, Marwick, Mitchell & Co.

10-K Report
A facsimile of Safeway's 1980 10-K Report filed with the Securities and Exchange Commission may be obtained by writing the Corporate Controller at our executive offices.

Annual Meeting
The 1981 Annual Meeting of Stockholders will be held on May 19, 1981. In connection with this meeting, proxies will be solicited by the management. A notice of the meeting, together with a proxy statement and a form of proxy, will be mailed April 3, 1981. This Annual Report does not constitute part of the proxy soliciting material.

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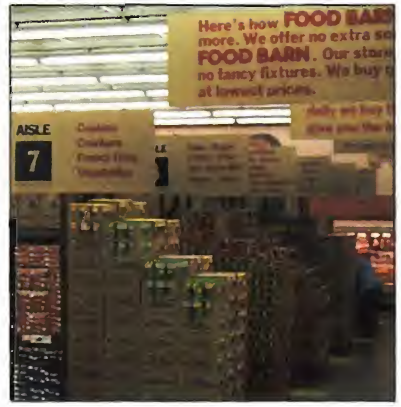


Change and Challenge

Peter A. Magowan

We've been busy.

Since the beginning of 1980 we have thoroughly analyzed every phase of our operations, identified our strengths and weaknesses, and taken steps that should substantially improve our ability to reach our full potential as the world's premier food retailer. Safeway is undergoing significant changes, which are summarized below and on the following pages. Some of these changes will enhance our future growth; others have had a more immediate effect, as evidenced by the steady improvement in our operating results during the latter part of the year.

Sales for the final 17 weeks of 1980 were $5.00 billion, up 14.8% over the equivalent 16-week period a year earlier (1980 was a 53-week year), while earnings per share climbed from $1.40 to $1.60 despite a negative swing of 13¢ per share in foreign currency translations. Net income as a percentage of sales recovered from 0.78% in the third quarter to 0.84% in the fourth. We are encouraged by this favorable trend and expect it to continue into 1981.

Unfortunately, the strong year-end showing was not enough to offset a disappointing performance during the first 36 weeks of 1980. Although consolidated annual sales increased 10.1% to a record $15.1 billion, net income dipped from $143.3 million ($5.49 per share) a year ago to $119.4 million ($4.57 per share).

Net income was adversely affected by major strikes earlier in the year, as well as the continued effects of intense competition and restrained consumer buying. Largely as a result of the latter two factors, we were unable to reflect sufficiently in our prices the sharp increases in our costs for labor, capital, energy and supplies. Another major reason for the decline in net profits was the impact of a number of non-operating factors, the most important of which were a credit to 1979 earnings of $8.0 million (31¢ per share) for pre-1979 deferred income taxes in the United Kingdom, and losses on translation of foreign currencies of $6.5 million (25¢ per share) in 1980 versus $2.0 million (8¢ per share) in 1979.

As mentioned, we have reason to believe that the profit picture will improve. We see many new growth opportunities ahead and intend to capitalize on them. To that end, last year we initiated a number of important changes:

☐ We have placed greater emphasis on corporate planning. By involving all levels of management in the planning process and centering responsibility for goal attainment in each of our operating units, we can coordinate our efforts more effectively and focus on those activities which will lead to long-term growth of sales and profits.

☐ We have gone outside the Company to supplement our expertise in certain areas. In the past year we have hired specialists in variety merchandising, pharmacy operations, cosmetics, natural foods and other fields. In addition, we have retained consultants to study possible new layouts and designs for our stores and to assist us in our marketing and promotional efforts.

☐ We have consolidated functions that can be performed more effectively or economically on a centralized basis. Our beef buying in the United States is now handled through a single office and many of our television commercials are produced centrally. We are also in the process of developing a set of standardized store layouts and more uniform organizational structures for our Retail Divisions.

☐ We have adopted more creative merchandising techniques and have greatly expanded the number of specialty departments in our stores. As explained later in the report, by the end of this year we believe we will have a reputation for operating some of the most innovative supermarkets in the industry.

☐ We have found alternate uses for stores we might otherwise have had to close, and in the process have created new opportunities for internal diversification.

☐ We have stepped up our international development program. Acquisitions by our Australian subsidiary have enabled Safeway to strengthen its presence in Sydney and to enter the important Brisbane market. We are also exploring potential markets overseas to export Safeway private label merchandise.

☐ We have tried to be more accessible to suppliers, the press and the financial community. At the same time, we have taken a more active role in industry affairs and have worked hard to improve communications with our employees.

Another bright spot is our building program, which is moving ahead at a brisk pace despite the economic downturn. Last year we opened 160 new stores, closed 169 older ones and extensively remodeled many others. The resulting net gain in sales area totaled 2.6 million square feet, an increase of 4.4%. Fifty-seven of the new stores opened in 1980 are located in communities we had not served previously.

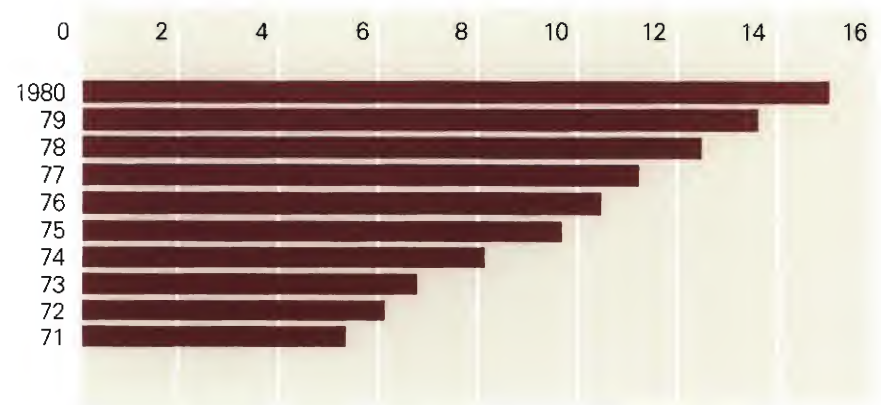
Two valued associates retired at the end of 1980. James M. McGinty, Vice President and Treasurer, and William F. Griffiths, Winnipeg Division Manager and Chairman of Canada Safeway Limited, have contributed significantly to the Company's growth during 86 combined years of service. In another management change, Burton R. Bolesworth was appointed Butte Division Manager and elected a Vice President.

Looking ahead, economic indicators point to a modest upturn in real personal income and moderation of the overall inflation rate. Although food prices will continue to increase in response to rising commodity prices and other factors, there is evidence that consumer recession psychology is gradually diminishing. We are optimistic that 1981 will be a better year.

Chairman and Chief Executive Officer

March 6, 1981

Sales
In billions $

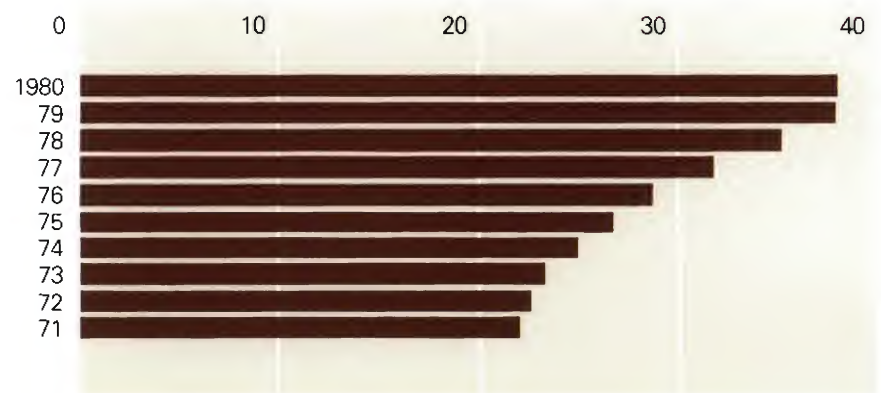


Net Income Per Share of Common Stock*
In dollars

Dividends Paid

Reinvested Earnings

Average Size of New Stores
In thousands of square feet



*Reflects the LIFO method of valuing certain inventories, in 1974 and succeeding years

Earnings	Sales
	Percent of annual increase
	Cost of sales
	Gross profit
	Percent of sales
	Operating and administrative expenses
	Percent of sales
	Operating profit
	Interest expense
	Other income—net
	Income taxes
	Net income
	Percent of sales
	Percent of average stockholders' equity
	Per share of common stock
	Cash dividends per share of common stock
	Average shares of common stock outstanding
Financial Statistics	Working capital
	Current assets per dollar of current liabilities
	Additions to property, net
	Depreciation and amortization
	Total assets
	Long-term debt
	Equity of common stockholders
	Per share of common stock
	Cash dividends on common stock
Other Statistics	Employees at end of year
	Stores opened during year
	Stores closed during year
	Total stores at end of year
	Total store area at year-end (thousands sq. ft.)
	Average annual sales per store
	Market price range of common stock

10 Year Summary

	1980* 53 weeks	1979*	1978*	1977*	1976*	1975* 53 weeks	1974*	1973	1972	1971
	$ 15,102,673	$ 13,717,861	$ 12,550,569	$ 11,249,398	$ 10,422,531	$ 9,716,889	$ 8,185,190	$ 6,773,687	$ 6,057,633	$ 5,358,837
	10.1%	9.3%	11.6%	7.7%	7.5%	18.7%	20.8%	11.8%	13.0%	10.3%
	11,817,141	10,793,874	9,829,071	8,916,719	8,363,555	7,750,304	6,647,799	5,447,736	4,837,185	4,263,937
	3,285,532	2,293,987	2,721,498	2,332,679	2,078,976	1,966,585	1,537,391	1,325,951	1,220,448	1,094,900
	21.8%	21.3%	21.7%	20.7%	19.9%	20.2%	18.8%	19.6%	20.1%	20.4%
	3,000,627	2,620,415	2,371,949	2,082,246	1,838,045	1,632,824	1,339,075	1,121,580	1,007,661	902,869
	19.9%	19.1%	18.9%	18.5%	17.6%	16.8%	16.4%	16.6%	16.6%	16.8%
	284,905	303,572	349,549	250,433	240,931	333,761	198,316	204,371	212,787	192,031
	99,614	91,276	74,110	70,104	63,254	68,816	66,683	55,326	51,638	44,182
	(8,621)	(12,483)	(1,279)	(3,918)	(6,218)	(5,397)	(4,739)	(4,616)	(3,616)	(3,967)
	74,544	81,456	130,600	81,942	83,052	124,088	59,271	69,204	75,495	73,280
	$ 119,368	$ 143,323	$ 146,118	$ 102,305	$ 100,843	$ 146,254	$ 77,101	$ 84,457	$ 89,270	$ 78,536
	.79%	1.04%	1.16%	.91%	.97%	1.51%	.94%	1.25%	1.47%	1.47%
	11.50%	14.71%	16.37%	12.40%	12.99%	20.83%	12.14%	14.23%	16.52%	16.11%
	$ 4.57	$ 5.49	$ 5.60	$ 3.93	$ 3.89	$ 5.64	$ 2.98	$ 3.28	$ 3.48	$ 3.08
	2.60	2.60	2.30	2.20	2.05	1.90	1.70	1.50	1.35	1.30
	26,115,917	26,113,785	26,075,822	26,021,220	25,945,775	25,911,286	25,832,351	25,751,349	25,642,110	25,533,257
	$ 112,749	$ 126,594	$ 213,193	$ 182,225	$ 225,156	$ 218,541	$ 118,112	$ 168,582	$ 194,261	$ 131,500
	1.10	1.12	1.22	1.22	1.31	1.34	1.17	1.31	1.49	1.36
	377,954	421,846	287,037	314,441	192,389	191,020	239,356	198,503	211,015	160,911
	206,374	183,955	166,623	148,024	136,555	127,857	116,509	102,460	94,321	84,094
	3,338,832	3,100,768	2,835,767	2,561,784	2,319,149	2,187,947	2,045,192	1,837,800	1,623,166	1,413,782
	1,051,229	955,656	880,734	836,633	766,596	761,107	703,431	663,931	645,602	526,289
	1,064,098	1,012,614	936,374	848,587	801,345	751,598	652,467	617,738	569,613	510,961
	40.75	38.77	35.88	32.58	30.84	28.98	25.24	23.95	22.15	19.99
	67,900	67,900	59,981	57,256	53,190	49,249	43,926	38,640	34,636	33,200
	150,012	148,876	144,243	139,865	133,083	127,004	121,355	117,721	105,613	97,463
	160	104	111	126	109	111	164	143	142	121
	169	115	103	136	122	86	102	110	94	135
	2,416	2,425	2,436	2,428	2,438	2,451	2,426	2,364	2,331	2,283
	62,069	59,470	57,461	55,184	53,223	51,854	50,159	46,480	44,844	42,752
	$ 6,072	$ 5,554	$ 5,098	$ 4,553	$ 4,222	$ 3,935	$ 3,360	$ 2,831	$ 2,613	$ 2,308
	36¼ -26	44-33⅝	46-35⅜	50⅜-39	50¼ -39¼	52⅝-34⅛	43⅞-29⅝	44⅛-27¼	44¼ -34	40¼ -32⅛

Note: Dollars are in thousands except per share figures. *Reflects the LIFO method of valuing certain inventories.

A. *Robert D. Reynolds and Gerald L. McGinnis, heads of two newly established strategic planning operations, will be assisting management in coordinating the Company's long-range objectives.*

B. *This busy shopper gets her beauty aids at a Safeway cosmetic center, where she can select from a wide assortment of leading brands at competitive prices.*

C. *Timothy J. Hopkins (second from right), Corporate Variety Merchandising Department Manager, confers with his staff merchandising coordinators (left to right): Jim Hobbs, Paul DiGrazia and Jack Peterson.*

D. *The complete natural food center is a highly successful Safeway innovation. We plan to have 340 in place by the end of 1981.*

E. *Shoppers can choose from a colorful array of florist-quality flowers and plants at low Safeway prices.*

F. *Full-line pharmacies were installed in 90 stores during the year. In 1981 plans call for addition of over 200 more.*

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Dale L. Lynch, President and Chief Operating Officer

Today more than ever before, the supermarket industry is characterized by change and challenge. A declining birth rate and smaller households, more two-income families with greater demands on their time, soaring energy and labor costs, persistently high inflation and interest rates, intensified competition—these and other factors are having a significant effect on our business. During the past year Safeway has responded decisively to these developments, shifting direction in certain areas to confront the changes and setting in motion aggressive operating plans to meet the challenges.

Sustained real growth will require new approaches to merchandising, to store site selection, even to the kinds of stores we will operate.

Greater Emphasis on Strategic Planning

It has become increasingly evident that to achieve our corporate objectives in this new environment, we must rethink—and if necessary, reformulate—some fundamental assumptions about the nature of our business. Chief among these is the once prevalent view that continued growth is virtually assured by people's basic need to eat. That's no longer the case. For one thing, population gains are leveling off. For another, food consumption patterns are changing; more meals are being eaten away from home, while at the supermarket, inflation-weary shoppers are "trading down" to keep their budgets in line. In light of these evolving trends, it's clear that we cannot continue to be successful by relying on what we have done in the past. Sustained real growth will require new approaches to merchandising, to store site selection, even to the kinds of stores we will operate.

Out of this reassessment of our current operating climate and future prospects has emerged a greater emphasis on long-range planning. To aid management in this vital function, during the year we established an Office of Corporate Strategic Planning and Development. Initially, the new operation has served as liaison between Safeway management, internal groups and consulting firms we hired to conduct strategic studies. In coming months the office will assist management in refining overall corporate objectives in key areas, and will help coordinate the Company's diverse planning and development activities toward common goals.

Renewed emphasis on a sound, continuing program of long-range planning is in evidence throughout our operations, by management at every level. We believe it will have a positive, measurable effect on our ability to achieve successful results in 1981 and beyond.

More Innovative Merchandising

In keeping with our ongoing commitment to the one-stop shopping concept, the vast majority of our full-service supermarkets opened in fiscal 1980 are in the Super Store category. The additional sales area in these outlets has enabled us to carry a broader, more profitable product mix and to include special features not usually found in conventional stores. We are taking full advantage of these new merchandising opportunities.

A major development in this regard is an ambitious program to equip many of our larger stores with full-line pharmacies. In the past year we installed 90 pharmacies and plan to add 205 more in 1981, which would bring the year-end total to 305. Beyond the potential for extra sales in dispensing prescriptions,

having a pharmacist on hand to answer customers' questions about related items typically results in substantially higher sales of health and beauty aids as well.

Among the most important product lines in the latter category are cosmetics. We are convinced that fashion-conscious women, particularly those holding jobs outside the home, will purchase more of their beauty aids in supermarkets — provided the products they want are available at competitive prices and are tastefully presented. During 1980 we added several franchise cosmetic centers which feature a wide assortment of the leading nationally advertised lines such as Revlon and Max Factor, and display them on distinctive fixtures similar to those in fine department stores. Many of the centers are staffed by cosmeticians trained by Mrs. Ione Giggey Hilt, a highly regarded fashion and merchandising expert whom we have hired as a consultant.

We are now well along in our efforts to establish a reputation for operating some of the most exciting, innovative supermarkets in the industry.

Another Safeway innovation is the complete natural food center, a separate in-store section stocking up to 3,000 high-volume items usually sold in health food stores. Consumer demand for such products, particularly among younger shoppers, has been strong and is increasing steadily. We operated 458 of these centers at year-end 1980 and expect to have a total of well over 700 in place by the end of 1981.

We've made similar gains in other specialty departments — cheese centers, bakeries, floral shops, delicatessens, photo and gift centers, and many more. We are now well along in our efforts to establish a reputation for operating some of the most exciting, innovative supermarkets in the industry.

New Store Formats

We will be adapting our merchandising strategies to appeal to a diverse range of consumer interests, some of which can be served more effectively in specialized store formats.

We believe the Super Store, with its multiple attractions of selection, convenience and service, meets the needs of the majority of our customers and will be the predominant outlet of the eighties. However, we will be adapting our merchandising strategies to appeal to a diverse range of consumer interests, some of which can be served more effectively in specialized store formats.

Last August in Sherman, Texas we opened the first of our planned combination food and drug stores. At 57,600 square feet it was the largest Safeway store built in North America in 1980; to date in 1981 we have opened nine other large units. These outlets combine a complete supermarket and a super drugstore under one roof, but all purchases pass through a common bank of checkstands. Approximately 40 to 50 percent of the floor space is allocated to general merchandise.

Some of our existing stores present excellent opportunities for other forms of diversification. By year-end we had converted to alternate uses 33 older stores we otherwise would have closed. In doing so, we were able to expand our sales base while retaining valuable retail sites with favorable lease terms. Twenty-six of these locations were reopened during the year as Food Barns — "no-frills" food outlets with limited selections of groceries, meat and produce. Most products are displayed in bulk bins or in shipping cases on wire racks, and customers bag or box their purchases themselves. Through these and other economies we are able to pass along substantial savings in the form of lower prices.

We also opened eight Liquor Barns in former Safeway supermarkets. These are now warehouse-type beverage stores stocking up to 2,500 varieties of imported and domestic liquor, beer and wine at exceptionally low prices.

In another diversification effort, last November we converted a store in Utah to a home improvement center. It's staffed by experienced management and salespeople and carries a full line of building materials, tools and garden supplies. Operating results at this prototype store will enable us to evaluate our prospects for further involvement in the fast growing and profitable "do it yourself" market.

A. *This new Home Works store carries a full line of tools, hardware, electrical supplies, plumbing fixtures and garden products.*

B. *President Dale L. Lynch (standing) and Sr. V.P. James A. Rowland (second from left) review display material with senior retail executives (clockwise, from rear): John Bell, A. G. Anselmo, William H. Maloney, Fred E. MacRae, John S. Kimball and Horace A. Justice.*

C. *Steven C. Boone, Liquor Barn Coordinator, discusses merchandising techniques with the manager of one of our free-standing beverage stores in California.*

D. *Our Food Barns have exceptionally low prices made possible by plain facilities, basic product assortment and limited services.*

E. *Safeway recently became the first food retailer to launch a major advertising campaign in nationally distributed magazines. This is one of a series of full color ads scheduled for 1981.*

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Likewise, experience gained in our planned conversion of a conventional supermarket to a gourmet food store in mid-1981 should prove useful as similar opportunities occur in the future. This particular store, to be located in the San Francisco area, will be extensively remerchandised and will include a full-service meat department.

Two other groups of previously-established specialty stores continued to show satisfactory results in 1980. Our small Town House stores, serving office workers and high-rise apartment and condominium dwellers in the Washington, D.C. area, feature a wide assortment of international foods, fine wines, and premium quality meat, produce and deli items. We are exploring the possibility of adapting this concept to suitable locations in other parts of the country. In our joint venture with Holly Farms Poultry Industries, Inc., we opened four more fried chicken and seafood take-out restaurants. At year-end we operated 52 outlets in four Southeastern states and the District of Columbia.

As a diversified retailer capable of satisfying a wide spectrum of consumer shopping preferences, we believe Safeway is in a strong position to achieve steady growth in the intensely competitive environment of the eighties.

International Operations Expanding

In 1980 Safeway strengthened its position as a broad-based international company by expanding existing operations, acquiring interests in new ventures and exploring innovative approaches to further involvement in foreign markets.

During the year 27 stores were opened outside the United States and 16 older ones were closed, resulting in a fiscal year-end total of 569 stores: 283 in Canada, 89 in the United Kingdom, 25 in West Germany and 72 in Australia. Foreign operations continued to perform well under mixed conditions. In the United Kingdom, for instance, excellent results were achieved despite a very difficult economic environment that depressed the earnings reported by many competitors. As noted in the Financial Review, Canadian and overseas retail operations account for a significant share of consolidated sales and earnings, and their growth rates exceed the corporate average.

We are actively seeking additional diversification opportunities

We have strengthened our position as a broad-based international company and are actively seeking additional diversification opportunities in foreign countries.

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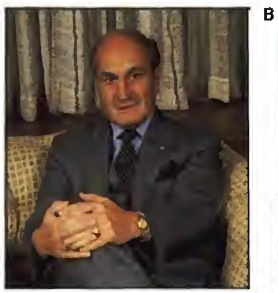

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Two major developments in Australia should accelerate our expansion program in that country.

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A. *A. G. Anselmo, Chairman, President and Chief Executive Officer, Canada Safeway Limited*

B. *J. W. R. Pratt, Chairman and Managing Director, Australian Safeway Limited*

C. *Manfred J. Filzek,* Geschäftsführer, *Safeway Supermarkt GmbH (West Germany)*

D. *T. E. Spratt, Chairman and Managing Director, Safeway Food Stores Limited (United Kingdom)*

E. *Gerald E. Brown, V.P. and International Development Division Manager, is investigating opportunities for the sale of marketing expertise in foreign countries. Activity is separate from our foreign subsidiary retail operations*

F. *Specialty breads and rolls are displayed in this separate section of a full-service Safeway delicatessen in Hannover, West Germany.*

G. *The acquisition of six supermarkets from The Myer Emporium Limited enabled Safeway to enter the Brisbane market, Australia's third largest.*

in foreign countries. To coordinate these efforts, we have established an International Development Division to plan new methods of participation in world markets. Some of these associations could take the form of management contracts, with Safeway providing consulting expertise rather than capital investments.

Two major developments in Australia should accelerate our expansion program in that country. As the result of a recent agreement with The Myer Emporium Limited, Australia's largest department store group, Safeway will operate a number of supermarkets adjoining Myer's Target discount stores in the states of New South Wales and Queensland. This will greatly enhance our presence in Sydney and mark our entry into the Brisbane metropolitan area, the country's third largest. Under terms of the agreement, we acquired six existing supermarkets and will have access to some of the most important shopping centers to be developed in the rapidly growing northern areas of Australia.

In another move down under, Safeway entered into an agreement to acquire all the shares of Jack Butler and Staff. Butler operates 31 Jack the Slasher discount food stores, primarily in Queensland. These warehouse-type, "no frills" outlets serve a growing segment of the Australian market and will enable us to give customers a wider range of shopping environments.

Our private label products present other opportunities for increased business overseas. We have been exporting Safeway Brands to Japan and Taiwan for some time and recently began shipments to the Middle East. In 1981 we hope to establish additional markets in the Far East and to explore longer-range prospects in other countries. In a related development, Canada Safeway Limited has established a task force to investigate export market opportunities for Western Canadian food products.

Safeway is also exploring the possibility of providing engineering expertise to foreign businesses. We have a staff of highly trained design and construction professionals who can assist in building food processing plants, warehouses and retail stores.

In England last April, Safeway extended the listing of its common shares to the London Stock Exchange. This was deemed appropriate in view of our ambitious store building program in the United Kingdom and London's increasingly important role as an international financial center.

Our prospects for continued expansion and diversification in foreign markets appear favorable and bode well for the Company's future growth.

Better Communications with Employees

We are confident we have only begun to tap the full potential of our most valuable resource.

Of all the challenges facing the supermarket industry today, few are more compelling than the need to increase productivity. Technological advances and better work methods hold promise of some improvement, but we are convinced the real key to greater output is a well-motivated workforce. To that end, we have taken a number of steps in the past year to improve communications with our employees.

One of our most important undertakings was an extensive survey of employee attitudes, involving more than 33,000 Safeway people in six Retail Divisions. Participants were asked to answer some 180 questions concerning job satisfaction, working conditions, feelings about their employer, opinions of Company training programs, prospects for advancement, etc.

In another move to improve internal communications, we published a special report to employees patterned after our annual report to stockholders. The 28-page, full color booklet reviewed our fiscal 1979 operating results from a "job holder's" point of view and focused on outstanding individual

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A. *Milton K. Kegley, V.P. and Management Development Division Manager, discusses employee training activities planned for 1981.*

B. *Pre-retirement counseling was made available to thousands of eligible employees in 1980.*

C. *Safeway will be providing extensive advertising support for the Association of Retarded Citizens' 1981 fund raising drive.*

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D. *John L. Repass, Sr. V.P. in charge of Personnel and Industrial Relations, and Ronald F. Zachary, V.P. and Personnel Services Division Manager, review new Employee Benefit Handbooks.*

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E. *To encourage employees to use public transportation instead of their cars, a number of Safeway offices provide shuttle service to and from mass transit terminals.*

F. *Neil P. Stewart, Editor, and Barbara Templeton, Associate Editor, examine color proofs of Safeway News' special Annual Report to Employees.*

efforts of front-line employees. Similar recognition is accorded to deserving workers in periodic newsletters issued by our Retail Divisions. These are designed to supplement the Company magazine, to keep readers better informed of local developments.

We are also trying to do a more effective job of explaining the Company's various benefit plans to eligible employees and their dependents. With assistance from a firm that specializes in communicating employee benefits, we recently condensed plan descriptions into a single handbook written in "plain English." The same firm also helped us initiate an intensive pre-retirement planning program for eligible employees over age 50 and their spouses. After an introductory meeting where groups gather for an informal discussion and orientation, participants receive a workbook, a set of cassette tapes and a tape recorder. They are then given five weeks to listen to the tapes and complete the workbook before returning for a second meeting where they receive additional material for the remaining part of the program. The response to date has been highly favorable.

In another area of communications, two training films produced by our audio-visual section received prestigious honors at the 1980 U.S. Industrial Film Festival. *A Little Bit More,* introducing our advertising campaign of the same name to employees at all levels, won the festival's "Silver Screen" award while *For Courtesy Clerks Only,* which emphasizes the importance of good customer relations, took a certificate of creative excellence. At year's end the total number of in-house training productions stood at 25. In 1981 we plan to make four more on subjects ranging from courtesy to the proper operation of checkstands equipped with electronic scanners.

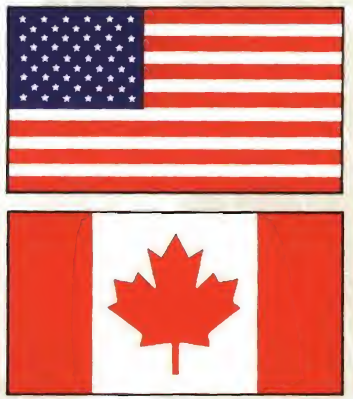
Being in a labor-intensive industry, Safeway has a large stake in maintaining good employee relations. Successful operating results will depend to a large degree on the effectiveness of our communications with our people...how well we listen to their ideas and concerns, how consistently and sincerely we acknowledge their achievements. Much has been accomplished in this regard over the past year, but we are confident we have only begun to tap the full potential of our most valuable resource.

The World of Safeway

As of fiscal year-end, Safeway and its subsidiaries operated 2,416 stores in the United States, Canada, the United Kingdom, West Germany and Australia. Alignment of Regions and Divisions is shown below. In the U.S., Regional Managers are supervised by James A. Rowland, Senior Vice President. A. G. Anselmo and John S. Kimball report to Dale L. Lynch, President, for their respective Canadian and European Divisions, as does the manager of the Australia Division.

California/Arizona Region John Bell	Los Angeles Division Albert J. Fulton 170 Stores	Phoenix Division John W. Warthan 69 Stores	Sacramento Division John R. Maxwell 88 Stores
	San Diego Division William M. Langley 50 Stores	San Francisco Division Eldon W. Starkey 188 Stores	
Northwest Region Fred E. MacRae	Butte Division Burton R. Bolesworth 34 Stores	Portland Division William D. Lowe 94 Stores	Salt Lake City Division Gene J. Lawson 64 Stores
	Seattle Division Gerald V. Curtright 124 Stores	Spokane Division John A. Cartales 41 Stores	
Midwest Region William H. Maloney	Denver Division Pete P. Martin 138 Stores	Kansas City Division Donald Gates 86 Stores	Little Rock Division Allen Francis 70 Stores
	Oklahoma City Division Forrest Woolery 68 Stores	Omaha Division James R. Smith 76 Stores	Tulsa Division Donald R. Cannon 53 Stores
Southern Region Horace A. Justice	Dallas Division Carey A. Ford 157 Stores	El Paso Division Donald J. Phillips 54 Stores	Houston Division Sam E. Raburn 90 Stores
Eastern Region John S. Kimball	Richmond Division Ralph C. Ward 76 Stores	Washington, D.C. Division Donald J. Smith 157 Stores	
Canada A. G. Anselmo	Calgary Division Robert H. Kinnie 42 Stores	Edmonton Division D. L. Olson 49 Stores	Regina Division N. M. Knebel 27 Stores
	Toronto Division Norman D. Fingler 26 Stores	Vancouver Division R. F. Hendy 91 Stores	Winnipeg Division Vern E. Fahey 48 Stores
Europe John S. Kimball	Germany Division Manfred J. Filzek 25 Stores	United Kingdom Division T. E. Spratt 89 Stores	
Reporting to Dale L. Lynch	Australia Division J. W. R. Pratt 72 Stores		

Note: Above listings include certain changes made since year-end.



United States
In the U.S., Safeway operates stores in 29 states and the District of Columbia. We are well represented in most of the fastest growing areas of the country in terms of population, income, employment and housing starts.

Canada
For more than half a century Canada Safeway Limited has been the premier food retailer in the western and central provinces. On the strength of its consumer-oriented merchandising programs, its outlook for the eighties is continued steady growth.

United Kingdom
Safeway Foods Stores Limited, our subsidiary in the United Kingdom, has an aggressive store building program under way. It soon will be operating over 100 supermarkets in England and Scotland.

West Germany
Our West German subsidiary, Safeway Supermarkt GmbH, has a reputation for outstanding perishables. Two new stores are scheduled to open in 1981 with four more planned for next year. Plans for a new distribution center are also in progress.

Australia
Australian Safeway Limited, a well established firm in Melbourne and Sydney, the country's two largest cities, should soon be widely recognized in the Brisbane metropolitan area, Australia's third largest.

Financial Review

Peter A. Magowan (standing), Chairman and CEO, with Harry D. Sunderland, Sr. V.P. and Chief Financial Officer, addressing a recent gathering of security analysts.

Results of Operations

Sales increased by 10.1% to $15.1 billion in 1980 (53 weeks), up from $13.7 billion in 1979 and $12.6 billion in 1978. The sales growth resulted primarily from increases in square footage and changes in merchandising prices and mix rather than increases in volume in existing stores. Sales were affected by a lower rate of inflation for food than for the general economy and by consumers "trading down" under the pressures of increased inflation. Sales were also affected by a series of labor disputes, the most significant of which were in the San Francisco, Houston and Salt Lake City divisions.

Gross profits as a percent of sales were 21.8% in 1980, compared with 21.3% in 1979 and 21.7% in 1978. Gross profits were reduced by the application of the LIFO method of inventory valuation in the amount of $45.5 million in 1980 (net of a $6.8 million settlement with the I.R.S.), and $43.7 and $30.4 million in 1979 and 1978, respectively.

Operating and administrative expenses increased to 19.9% of sales in 1980 from 19.1% in 1979 and 18.9% in 1978. This was due principally to increases in employee costs, comprising about 75% of our total operating and administrative expenses. Rapidly rising utility costs have also contributed to higher operating costs.

Interest expense increased to $99.6 million in 1980 from $91.3 million in 1979 and $74.1 million in 1978. These increases were caused by both higher interest rates and higher levels of borrowing. Interest expense for 1980 was somewhat reduced by the capitalization of interest incurred in connection with construction in progress as required by Statement of Financial Accounting Standards No. 34.

Losses on translation of foreign currencies totalled $16.3 million over the last three years and have resulted principally from the continuing decline in the Canadian dollar. The accounting profession is currently considering proposals to eliminate foreign currency translation gains and losses from the statement of income, a proposal with which we concur.

The provision for income taxes as a percent of pre-tax income was 38.4% in 1980 compared with 36.2% in 1979 and 47.2% in 1978. The 1979 rate was unusually low due to the $8 million pre-1979 tax credit arising from the U.K. "inventory relief" (see Note D). Otherwise, the decline in the rate has been caused principally by the impact of increasing investment tax credits as pre-tax income has declined.

Although income declined in both 1979 and 1980, we are encouraged by improvement in the latter part of 1980. We expect this trend to continue into 1981 in part because of a number of important changes initiated by Management. Some of these changes are presented elsewhere in this Annual Report.

See Note M for information on the effects of inflation and changing prices on operating results.

Liquidity

The Company's consolidated working capital declined by $100 million during 1979 and 1980, reducing the current ratio from 1.22 at year-end 1978 to 1.10 at year-end 1980. However, since approximately 60% of consolidated merchandise inventories are carried at LIFO cost, this portion of inventories is stated significantly below the current cost of replacement. If all inventories were stated on a FIFO basis, the Company's current ratio would have been 1.32, 1.31 and 1.39 at year-ends 1980, 1979 and 1978, respectively.

Inventory turnover is an important liquidity factor in the retail industry. On average the Company turns over its merchandise inventories every 5½ weeks, minimizing the need for borrowed funds to finance them. Receivables, on the other hand, are not a significant factor in the Company's liquidity since grocery retailing is mainly a cash and carry business.

The Company maintains substantial credit lines to support its short-term financing needs. At the end of fiscal year 1980, lines of credit amounting to $346 million were available. The Company has increasingly relied on commercial paper backed by credit lines for its short-term needs. The average amount of commercial paper outstanding increased to $159 million in 1980 from $71 million in 1979 and $15 million in 1978.

Financing needs for both inventory and construction of facilities peak in the fourth quarter of each year. The maximum amount of aggregate short-term borrowings outstanding was $221 million in 1980, $239 million in 1979 and $97 million in 1978.

The cost of short-term funds has increased dramatically over the past two years. The Company paid an average interest rate on short-term funds of 13.6% in 1980, 11.7% in 1979 and 8.4% in 1978, an increase of 62% during this period.

Capital Resources

Capital expenditures increased to $493 million in 1980 from $436 million in 1979 and $303 million in 1978. These expenditures were used principally for new and remodeled stores. Total square footage of retail facilities increased 4.4% in 1980, 3.5% in 1979 and 4.1% in 1978. The average size of new stores increased to 38,000 square feet, reflecting the Company's increasing commitment to the larger "super store" concept.

Approximately half of our capital expenditures are for purchases of fixtures and equipment, amounting to $212 million in 1980, $189 million in 1979 and $145 million in 1978.

Our 1981 plans call for the opening of about 146 new stores, compared to 160 in 1980, and total capital expenditures of $500 million.

Funds provided by operations are the major source of capital financing. Another significant source of funds used for expansion and renewal of facilities is sale/leaseback financing which totalled approximately $92 million in 1980, $88 million in 1979 and $81 million in 1978. Sale/leasebacks are expected to result in an increasing amount of off-balance-sheet financing as the number of leases capitalized declines (see Note A—"Capitalization of Leases").

The Company will be considering other long-term financing alternatives in 1981 depending on changing conditions in the financial environment.

Sales by Country
In millions U.S. $

				percent increase	
	1980	1979	1978	1980	1979
United States	$11,519.0	$10,765.9	$10,033.7	7.0%	7.3%
Canada	2,190.9	1,865.5	1,648.8	17.4	13.1
United Kingdom	763.8	538.8	393.1	41.8	37.1
Australia	501.3	432.4	379.9	15.9	13.8
West Germany	127.7	115.3	95.1	10.8	21.2
Total	$15,102.7	$13,717.9	$12,550.6	10.1%	9.3%

Stores by Country

	square feet at year-end (millions)			stores at year-end	number of stores opened		
	1980	1979	1978	1980	1980	1979	1978
United States	50.9	49.1	47.8	1,947	131	81	99
Canada	7.2	6.8	6.5	283	12	12	7
United Kingdom	1.7	1.6	1.4	89	5	6	1
Australia	1.9	1.6	1.4	72	12	4	2
West Germany	.4	.4	.4	25	—	1	2
Total	62.1	59.5	57.5	2,416	160	104	111

Consolidated Statement of Income and Retained Earnings

For the 53 Weeks Ended January 3, 1981, and the 52 Weeks Ended December 29, 1979 and December 30, 1978
Safeway Stores, Incorporated and Subsidiaries
(thousands except per share figures)

	1980	1979	1978
Sales	$ 15,102,673	$ 13,717,861	$ 12,550,569
Cost of sales	11,817,141	10,793,874	9,829,071
Gross profit	3,285,532	2,923,987	2,721,498
Operating and administrative expenses	3,000,627	2,620,415	2,371,949
Operating profit	284,905	303,572	349,549
Interest expense (Note C)	99,614	91,276	74,110
Loss on translation of foreign currencies	6,451	1,964	7,856
Other (income), net	(15,072)	(14,447)	(9,135)
Income before provision for income taxes	193,912	224,779	276,718
Provision for income taxes (Note D)	74,544	81,456	130,600
Net income (per share: $4.57, $5.49 and $5.60)	119,368	143,323	146,118
Retained earnings at beginning of period	905,651	830,189	743,995
Cash dividends on common stock (per share: $2.60, $2.60 and $2.30)	(67,900)	(67,900)	(59,981)
Additions resulting from stock acquisitions	16	39	57
Retained earnings at end of period	$ 957,135	$ 905,651	$ 830,189

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

For the 53 Weeks Ended January 3, 1981, and the 52 Weeks Ended December 29, 1979 and December 30, 1978
Safeway Stores, Incorporated and Subsidiaries
(thousands)

		1980	1979	1978
Funds provided	Net income	$ 119,368	$ 143,323	$ 146,118
	Add charges (credits) to income not requiring funds:			
	Depreciation and amortization	206,374	183,955	166,623
	Increase (decrease) in deferred income taxes	(518)	(7,788)	9,736
	Increase in accrued claims	9,819	8,480	11,067
	Stock issued under sales incentive plan	—	—	413
	Total funds provided from operations	335,043	327,970	333,957
	Additions to long-term debt	160,432	124,708	98,461
	Retirements or sales of property	115,051	14,082	16,063
	Sale of common stock to employees	—	778	1,180
	Other sources, net	1,393	(523)	(1,252)
		611,919	467,015	448,409
Funds used	Additions to property	493,005	435,928	303,100
	Cash dividends on common stock	67,900	67,900	59,981
	Payments on long-term debt	64,859	49,786	54,360
		625,764	553,614	417,441
	Increase (decrease) in working capital (Note L)	$(13,845)	$(86,599)	$ 30,968

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

As of January 3, 1981, December 29, 1979 and December 30, 1978
Safeway Stores, Incorporated and Subsidiaries
(thousands)

	Assets	1980	1979	1978
Current assets	Cash	$ 115,758	$ 97,872	$ 136,531
	Receivables	56,633	60,094	52,104
	Merchandise inventories (Note A)	1,012,063	981,305	924,479
	Prepaid expenses	83,777	68,543	70,276
	Total current assets	1,268,231	1,207,814	1,183,390
Other assets	Licenses, notes receivable and investments	31,758	27,391	26,398
	Deferred income tax charges	2,104	1,586	—
	Excess cost of investment in subsidiaries over net assets at date of acquisition, less amortization	3,036	2,180	2,396
		36,898	31,157	28,794
Property (Note G)	Land	139,869	111,238	82,471
	Buildings	183,230	153,202	147,179
	Leasehold improvements	357,732	295,835	223,398
	Fixtures and equipment	1,344,889	1,196,024	1,057,448
	Transport equipment	162,516	153,839	145,777
	Property under capital leases	1,226,900	1,218,270	1,119,957
		3,415,136	3,128,408	2,776,230
	Less accumulated depreciation and amortization	1,381,433	1,266,611	1,152,647
		2,033,703	1,861,797	1,623,583
		$3,338,832	$3,100,768	$2,835,767

See accompanying notes to consolidated financial statements.

	Liabilities and Stockholders' Equity	1980	1979	1978
Current liabilities	Notes payable (Note E)	$ 116,679	$ 136,792	$ 57,342
	Current obligations under capital leases	44,855	44,273	41,084
	Current maturities of notes and debentures	5,880	7,223	6,793
	Accounts payable	726,429	676,263	629,282
	Accrued salaries and wages	129,457	110,928	101,906
	Other accrued expenses	102,074	86,142	76,882
	Income taxes payable	30,108	19,599	56,908
	Total current liabilities	1,155,482	1,081,220	970,197
Long-term debt	Obligations under capital leases (Note F)	844,011	846,179	766,298
	Notes and debentures (Note G)	207,218	109,477	114,436
		1,051,229	955,656	880,734
	Deferred income taxes	—	—	6,202
	Accrued claims and other liabilities	68,023	51,278	42,260
	Commitments and contingencies (Notes B, F, H & I)			
Stockholders' equity (Notes G, J & K)	Common stock—$1.66⅔ par value			
	Authorized 75,000,000 shares			
	Outstanding 26,115,917, 26,115,917 and 26,096,966 shares	43,527	43,527	43,495
	Additional paid-in capital	63,436	63,436	62,690
	Retained earnings	957,135	905,651	830,189
		1,064,098	1,012,614	936,374
		$3,338,832	$3,100,768	$2,835,767

Notes to Consolidated Financial Statements

Note A Summary of Significant Accounting Policies

Fiscal Year
The fiscal year for the Company and its Canadian subsidiaries ends on the Saturday nearest to December 31. Fiscal years of overseas subsidiaries follow a similar pattern but generally end on the Saturday nearest September 30, to allow sufficient time to gather information from overseas for U.S. reporting purposes.

Basis of Consolidation
Consolidated financial statements include the accounts of all subsidiaries except a minor overseas subsidiary which is included in investments at the amount of equity in net book value. All intercompany transactions have been eliminated in consolidation.

Interest Expense
Beginning in 1980 interest cost incurred in connection with construction in progress is being capitalized in accordance with the provisions of Statement of Financial Accounting Standards No. 34. Interest capitalized in 1980 was $9,809,000. No interest was capitalized in earlier years and the financial statements of those years have not been restated.

Translation of Foreign Currencies
Accounts are translated at current and historical rates as prescribed by Statement of Financial Accounting Standards No. 8. Unrealized gains and losses from such foreign currency translation are included in income currently.

Provision For Income Taxes
The Company provides for deferred income tax charges and credits resulting from timing differences in reporting income and expenses for financial statement purposes compared to the methods of reporting for income tax purposes. These timing differences arise primarily from the use of accelerated depreciation for tax purposes and from the accrual of claims and capitalization of leases for financial statement purposes. Current U.S. taxes are reduced for investment tax credits in the year in which the credits arise.

Net Income Per Share
Net income per share is determined by dividing consolidated net income by the average number of common shares outstanding during the year.

Merchandise Inventories
In the U.S., inventories of grocery department items in stores and warehouses are determined on a last-in, first-out (LIFO) basis. All other inventories are valued at the lower of cost on a first-in, first-out (FIFO) basis or replacement market. As supplemental information, if only the FIFO method had been used, inventories would have been $256,093,000, $210,626,000 and $166,908,000 higher as of year-ends 1980, 1979 and 1978, respectively, and net income would have been $22,734,000 higher ($.87 per share) in 1980, $22,296,000 higher ($.85 per share) in 1979 and $14,913,000 higher ($.58 per share) in 1978.

Excess Cost of Investment in Subsidiaries
The excess cost of investment in subsidiaries over net assets at date of acquisition is being amortized and charged against income on a straight-line basis over twenty years.

Property and Depreciation
Property is stated at historical cost. Depreciation is computed for financial reporting purposes on the straight-line method. The following are the principal rates of depreciation used during the year:

Stores and other buildings	2½ to 5%
Fixtures and equipment	5 to 20%
Transport equipment	12½ to 16⅔%

Leasehold improvements include buildings constructed on leased land and improvements to leased buildings. Buildings and major improvements are amortized over the shorter of the remaining period of the lease or the estimated useful lives of the assets, while minor improvements are amortized over the shorter of the remaining period of the lease or six years.

Property under capital leases is amortized over the terms of the leases. Accumulated amortization of property under capital leases was $469,532,000, $447,938,000 and $421,735,000 at year-ends 1980, 1979 and 1978, respectively.

Depreciation and amortization expense for property of $206,048,000 in 1980, $183,632,000 in 1979 and $166,324,000 in 1978 included amortization of property under capital leases of $55,899,000, $52,514,000 and $48,333,000, respectively.

Capitalization of Leases
The wide fluctuations in interest rates in 1980 and the increasing residual values of underlying properties have made it impracticable to determine the interest rates implicit in the leases as defined by Statement of Financial Accounting Standards No. 13. Therefore, beginning in 1980, the Company is using its incremental borrowing rate for capitalization of leases. The effect has been to substantially decrease the number of leases capitalized.

Stock Options
Proceeds from the sale of common stock issued under options are added to common stock at par value and the excess is added to additional paid-in capital.

Note B Employee Retirement and Profit-sharing Plans

The Company and its subsidiaries have contributory, trusteed retirement plans, which may be amended or terminated at any time, for eligible employees not covered by other plans to which the companies contribute. The Company also has a supplemental pension plan for senior executives. The aggregate charges to income for all such plans were $22,395,000 in 1980, $21,114,000 in 1979 and $17,305,000 in 1978. The Company's practice is to contribute the full normal cost each year as determined using the aggregate method; accordingly, there is no unfunded past service liability.

The actuarial present value of accumulated plan benefits at December 31, 1979 for the U.S. Retirement Plan was $150,195,000 as to vested benefits and $2,770,000 as to nonvested benefits, and the net assets available for benefits at that date amounted to $247,088,000. The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7%.

The Company's foreign retirement plans and the supplemental pension plan for senior executives are not required to report to U.S. governmental agencies pursuant to the Employee Retirement Income Security Act of 1974. Accordingly, the actuarial present value of accumulated plan benefits comparable to that disclosed above for the U.S. Retirement Plan has not been calculated for those plans. The net assets of foreign plans are sufficient to fund vested benefits. The Company has purchased cost-recovery life insurance to fund its obligations under the supplemental pension plan for senior executives.

Contributions charged to income for various pension plans under union contracts were $99,131,000 in 1980, $88,765,000 in 1979 and $76,497,000 in 1978. In 1980, U.S. legislation established new obligations for employers that participate in multi-employer pension plans regarding such plans' unfunded vested benefits. The Company's potential obligation as a participant in such plans may be significant; however, the information required to determine the amount of this contingent obligation, as well as the amount of accumulated benefits and net assets of such plans, is not available.

Contributions charged to income for the Company's U.S. and Canadian employee profit-sharing plans were $11,775,000 in 1980, $7,765,000 in 1979 and $13,729,000 in 1978.

The Company set aside $2,070,000 in 1980, $1,765,000 in 1979 and $1,196,000 in 1978 for contribution to a U.S. employee stock ownership plan which was made possible by additional investment tax credits authorized by tax legislation.

Note C Interest Expense

Interest expense consisted of the following (in thousands):

	1980	1979	1978
Obligations under capital leases	$ 73,057	$67,411	$60,424
Notes and debentures	17,749	9,204	9,901
Short-term borrowings	16,883	12,309	3,117
Other	1,734	2,352	668
	109,423	91,276	74,110
Less capitalized interest	9,809	—	—
	$ 99,614	$91,276	$74,110

Note D Taxes on Income

The components of the provision for income taxes included in the consolidated statement of income were as follows (in thousands):

	1980	1979	1978
Current: Federal	$ 13,590	$37,004	$ 83,108
Foreign	52,643	34,810	35,590
State	7,343	7,668	12,160
	73,576	79,482	130,858
Deferred: Federal and state (charges)	(2,198)	1,109	(7,251)
Foreign	3,166	865	6,993
	968	1,974	(258)
	$ 74,544	$81,456	$ 130,600

The following represent the tax effects of the principal items for which treatment for financial statement and income tax purposes differ, giving rise to timing differences (in thousands):

	1980	1979	1978
Accelerated depreciation	$ 9,897	$ 6,800	$ 10,433
Accrued claims	(5,842)	(837)	(7,266)
Retirement plan	—	6,073	—
Capitalized leases	(4,878)	(4,433)	(2,994)
Repairs expense	2,257	(3,782)	(1,747)
Other, net	(466)	(1,847)	1,316
	$ 968	$ 1,974	$(258)

In 1980 distributions were made to the parent Company from current earnings of certain foreign subsidiaries and provision has been made for the income taxes payable on such distributions. No provision has been made for income taxes which might be payable if earnings not yet distributed through year-end 1980 were distributed to the parent Company, since it is the intention of Management to make no such distributions. The undistributed earnings on which the parent Company has not provided for income taxes were $489,790,000, $426,213,000 and $357,236,000 at year-ends 1980, 1979 and 1978, respectively.

United States and Canadian corporation income tax returns for all years prior to 1976 have been reviewed by taxing jurisdictions. In 1980 the Company reached a settlement with the Internal Revenue Service over the audit of its 1974 tax return which reduced the LIFO deduction for that year by $6,840,000. This also resulted in a reduced 1980 LIFO charge for financial reporting purposes. Substantially all other deductions which have been or may ultimately be disallowed will be carried forward as timing differences and claimed as deductions in future years, thereby having no significant effect on reported earnings.

The Company's effective income tax rate varies from the statutory Federal income tax rate as shown below (dollars in thousands):

	1980		1979		1978	
	amount	%	amount	%	amount	%
Federal income taxes at statutory rate	$ 89,200	46.0	$ 103,398	46.0	$ 132,825	48.0
Investment tax credit	(17,579)	(9.1)	(15,710)	(7.0)	(13,156)	(4.8)
United Kingdom inventory relief*	(3,574)	(1.8)	(12,041)	(5.4)	—	—
State taxes on income, less Federal income tax benefit	3,965	2.0	4,182	1.9	6,490	2.4
Other, net	2,532	1.3	1,627	.7	4,441	1.6
	$ 74,544	38.4	$ 81,456	36.2	$ 130,600	47.2

*In 1979 the Company discontinued providing deferred income taxes for United Kingdom "stock relief" tax benefits no longer subject to recapture under revisions to United Kingdom tax law. Accordingly, deferred income taxes of $7,979,000 provided in years prior to 1979 were reversed in 1979.

Note E Lines of Credit and Short-Term Borrowings

At year-end 1980 the Company had unused lines of credit amounting to $346,000,000, of which $262,000,000 were with U.S. banks. Compensating balances in support of these lines of credit were not material and there were no legal restrictions on withdrawals for any accounts.

The Company issues commercial paper notes of which $140,000,000 were outstanding at year-end 1980. Of this amount, $75,000,000 was classified as a long-term obligation (see Note G) and $65,000,000 was included in notes payable. Bank borrowings outstanding under credit facilities other than lines of credit were $34,941,000 at year-end 1980. All such borrowings have been at the prime rate of interest or lower. Additional amounts included in notes payable represent overdraft financing by the Company's overseas subsidiaries.

Note F Lease Obligations

The Company and its subsidiaries occupy primarily leased premises, which were covered by 3,470 leases at year-end 1980. Of these leases 1,904 are considered capital under Statement of Financial Accounting Standards No. 13. The remainder are operating leases.

Most leases have renewal options with terms and conditions similar to the original lease. Of all the leases, 1,585 can be cancelled by the Company by offer to purchase the properties at original cost less amortization, with purchase obligatory upon acceptance of the offer by the lessor.

The Company owns most of its fixtures and equipment.

The following is a schedule by years of future minimum rental payments required under capital leases and under operating leases that have initial or remaining non-cancellable lease terms in excess of one year as of year-end 1980 (in thousands):

	Capital Leases	Operating Leases
1981	$ 118,491	$ 79,802
1982	115,996	79,204
1983	112,945	76,800
1984	110,235	73,738
1985	106,613	69,363
Later years	1,058,880	714,788
Total minimum lease payments	1,623,160	$1,093,695
Less executory costs	24,829	
Net minimum lease payments	1,598,331	
Less amount representing interest	709,465	
Present value of net minimum lease payments	888,866	
Less current obligations	44,855	
Long-term obligations	$ 844,011	

In addition to minimum lease payments, contingent rentals may be paid under certain store leases on the basis of the stores' sales in excess of stipulated amounts. Contingent rentals on capital leases amounted to $7,887,000 in 1980, $7,667,000 in 1979 and $8,598,000 in 1978.

The following schedule shows the composition of total rental expense for all operating leases (in thousands):

	1980	1979	1978
Property leases:			
Minimum rentals	$ 97,484	$ 78,151	$ 72,824
Contingent rentals	7,972	8,006	6,863
Less rentals from subleases	(6,036)	(5,619)	(5,065)
	99,420	80,538	74,622
Equipment leases	19,182	15,631	14,054
	$ 118,602	$ 96,169	$ 88,676

Note G — Notes and Debentures

Notes and debentures at year-end 1980 consisted of (in thousands):

	Due After One Year	Current Maturities
Mortgage notes payable, secured	$ 53,930	$2,536
7.40% sinking fund debentures, unsecured, due in installments through 1997	48,235	—
Commercial paper	75,000	—
Other notes payable	30,053	3,344
	$207,218	$5,880

The mortgage notes payable are secured by properties which are included in the balance sheet at their net book value of $59,038,000.

The 7.40% debentures require annual sinking fund payments of $3,250,000. The Company has repurchased debentures which cover $7,015,000 of future sinking fund requirements remaining at year-end 1980. Under the agreement covering the 7.40% debentures, $507,949,000 of the retained earnings as of year-end 1980 were free of restrictions for dividend payments and acquisitions of common stock. Restrictions include a limitation on the creation of additional funded debt.

In 1980 the Company entered into credit agreements with a number of banks under which the Company may borrow up to $75,000,000 on a revolving credit basis through May 31, 1983. The Company pays a commitment fee of ½ of 1% per annum on the unused portion. No funds were borrowed under these agreements in 1980. It is management's intention to maintain the availability of the credit agreements or refinance $75,000,000 of short-term obligations on a long-term basis. Accordingly, this amount of commercial paper has been classified as a long-term obligation as of year-end 1980.

Aggregate annual maturities of notes and debentures for the four years beyond 1981 are (in thousands):

1982	$ 8,242
1983	81,893
1984	7,307
1985	7,265

Note H — Commitments

The Company has commitments under contracts for the purchase of property and equipment and for the construction of buildings. Portions of such contracts not completed at year-end are not reflected in the financial statements. These unrecorded commitments amounted to approximately $97,000,000 at year-end 1980.

Note I — Contingent Liabilities — Litigation

In addition to various claims and lawsuits arising in the normal course of the Company's business, as of March 6, 1981, there are actions pending against the Company charging violations of the antitrust laws and certain Civil Rights statutes, some of which purport to be class actions and seek damages in very large amounts, as well as other relief which, if granted, would require very large expenditures.

Prior Annual Reports noted the pendency of 18 suits brought against the Company and others by various livestock producers and feeders alleging violations of the antitrust laws in the purchase and sale of meat (and of one similar suit in which the Company was named as a co-conspirator). In 10 cases discovery and other preparatory steps are in progress for an October District Court hearing to determine whether the actions may continue under the "cost plus" exception to the U.S. Supreme Court's holding in the *Illinois Brick* case that only those dealing directly with defendants could recover damages under the antitrust laws. Of the remaining 8 cases, 7 in the U.S. District Court are in early stages of discovery, and 1 dismissed by the District Court was refiled in a State Court and is on appeal from dismissal by that Court.

The California State action, reported in the 1979 Annual Report, in which the Company and other retailers were joined as defendants in a pending action against various packers charging price-fixing of carcass beef in Southern California, was dismissed, and the time for appealing the dismissal has expired.

While Management is unable to predict the ultimate outcome of these antitrust cases, in its opinion, the Company has good and meritorious defenses to each action and should prevail in all.

Although the amount of liability at year-end 1980 with respect to all of the above matters cannot be ascertained, Management is of the opinion that any resulting liability will not materially affect the Company's consolidated income or financial position.

Note J — Capital Stock and Additional Paid-in Capital

The Company has 220,372 shares of authorized and unissued 4% cumulative preferred stock with a $100 par value. The following summary shows the changes during 1978, 1979 and 1980 in common stock and additional paid-in capital (dollars in thousands):

	Common Stock			Additional
	Shares Outstanding	Shares in Treasury	Amount Outstanding	Paid-in Capital
Balance, year-end 1977	26,046,885	22,630	$43,411	$61,181
Stock options exercised, 1978	40,033	—	67	1,509
Shares issued to employees under sales incentive plan, 1978	10,048	(10,048)	17	—
Balance, year-end 1978	26,096,966	12,582	43,495	62,690
Stock options exercised, 1979	19,970	—	34	744
Shares reacquired by Company, 1979	(1,019)	1,019	(2)	2
Balance, year-ends 1979 and 1980	26,115,917	13,601	$43,527	$63,436

Note K — Stock Options

The following summary shows the changes during 1978, 1979 and 1980 in qualified stock options granted to key employees to purchase shares of the Company's common stock:

	Shares	Option Price
Balance, year-end 1977	548,010	$29.13–47.88
Granted, 1978	23,700	40.50–43.43
Exercised, 1978	(40,033)	29.13–39.44
Expired, 1978	(12,877)	29.13–47.88
Balance, year-end 1978	518,800	34.88–47.88
Granted, 1979	67,700	40.13
Exercised, 1979	(19,970)	34.88–39.44
Expired, 1979	(73,930)	34.88–47.88
Balance, year-end 1979	492,600	40.13–47.88
Expired, 1980	(13,250)	40.13–47.88
Balance, year-end 1980	479,350	40.13–47.88

At year-end 1980 there were 31,940 unoptioned shares available for granting compared with 18,690 at the beginning of the year. The number of shares for which options were exercisable was 413,600 at year-end 1980. Expiration dates of options outstanding at year-end 1980 ranged from June 22, 1981 to August 22, 1984, and the aggregate average purchase price of securities under such outstanding options was $44.34.

A new stock option plan will be submitted for stockholder approval at the 1981 Annual Meeting.

Note L — Changes in Working Capital (thousands)

	1980	1979	1978
Increase (decrease):			
Cash	$ 17,886	$(38,659)	$ 18,395
Receivables	(3,461)	7,990	8,967
Merchandise inventories	30,758	56,826	114,261
Prepaid expenses	15,234	(1,733)	14,735
Notes and obligations payable	20,874	(83,069)	(8,634)
Payables and accruals	(84,627)	(65,263)	(82,768)
Income taxes payable	(10,509)	37,309	(33,988)
Increase (decrease) in working capital	$(13,845)	$(86,599)	$ 30,968

Note M — Supplementary Information on Inflation and Changing Prices (unaudited)

The Company's financial statements are prepared based mainly on historical prices, that is, the prices that were in effect when the transactions occurred. The only significant exception is the LIFO method of accounting for certain merchandise inventories. The supplementary financial information discloses the effects of inflation as it relates to the Company's merchandise inventories and property using two approaches prescribed by Statement of Financial Accounting Standards No. 33.

The first approach uses the Consumer Price Index for All Urban Consumers (CPI-U) as the basis for restating amounts recorded in dollars of purchasing power at the time of the original transactions (historical costs) to dollars of 1980 average purchasing power. The second uses specific price indices and other measures of specific costs to restate the historical cost amounts to amounts which approximate the current costs of producing or replacing inventories and property.

The table below shows the effect on 1980 net income if both cost of sales and other expenses are adjusted under the two approaches described above. Also shown is the effect on 1979 net income of adjustments under the second approach. Cost of sales reflects adjustments for both the cost of merchandise sold and that portion of depreciation and amortization associated with production and distribution facilities and equipment. Other expenses include inflation-adjusted depreciation and amortization expense related to all other facilities and equipment. No other elements of costs and expenses have been restated for inflation and no effect has been given to the provision for income taxes to reflect the lower taxable income which would result from the inflation adjustments.

Two additional disclosures in the table concern increases in the overall purchasing power of the Company. The first is the "gain from the decline in purchasing power of net monetary liabilities." Net monetary liabilities represent all monetary liabilities less all monetary assets. Monetary assets are essentially cash and claims to cash (receivables) and monetary liabilities are obligations to pay fixed amounts of cash. In a period of inflation the purchasing power of cash declines; thus, a debt incurred at the beginning of a period provides dollars of greater purchasing power than the dollars needed to repay the debt at a later point in time. The Company holds a debt position with regard to monetary items, that is, monetary liabilities exceed monetary assets, and this results in a gain in the Company's purchasing power during periods of inflation.

The second measure of increase in purchasing power concerns the increase in current costs of merchandise inventories and property during the year. The change in current costs may exceed or be less than the rate of general inflation in a given year. Thus, the change is shown both before and after the effect of general inflation. At year-ends 1980 and 1979, the current cost (in millions) for merchandise inventories was $1,273 and $1,199, and for net property was $3,184 and $2,764, respectively.

The other table is a five-year summary of selected financial data adjusted for the effects of general inflation and for changes in specific prices. All amounts have been stated in dollars of 1980 average purchasing power for comparability. "Net assets at year-end" includes restated amounts for only merchandise inventories and property.

Supplementary Financial Data Adjusted for The Effects of Changing Prices (millions)

	1980			1979
	As Reported in The Statement of Income	Adjusted for General Inflation	Adjusted for Changes in Specific Prices (Current Costs)	Adjusted for Changes in Specific Prices (Current Costs) (2)
Sales	$15,103	$ 15,103	$ 15,103	$ 15,573
Cost of sales	11,817	11,918	11,906	12,359
Other expenses, net	3,092	3,163	3,168	3,142
Income before provision for income taxes	194	22	29	72
Provision for income taxes	75	75	75	81
Net income (loss)	$ 119	(53)	(46)	(9)
Gain from the decline in purchasing power of net monetary liabilities		214	214	230
		$ 161	$ 168	$ 221
Increase in the current costs of merchandise inventories and property			$ 463	$ 448
Less the increase due to general inflation			(453)	(486)
Increase (decrease) net of general inflation			$ 10	$(38)
Depreciation and amortization expense (1)	$ 206	$ 306	$ 317	$ 302

(1) Allocated between cost of sales and other expenses in the determination of net income or loss.
(2) The 1979 current cost amounts have been restated into dollars of 1980 average purchasing power.

Five-Year Comparison of Selected Financial Data Adjusted for The Effects of Changing Prices
(In Dollars of 1980 Average Purchasing Power)

	1980	1979	1978	1977	1976
Sales	$ 15,103	$ 15,573	$15,852	$15,297	$15,116
Historical cost information adjusted for general inflation:					
Net income (loss)	(53)	(2)	53	29	55
Net income (loss) per share of common stock	(2.03)	(.09)	2.03	1.13	2.11
Net assets at year-end	2,089	2,053	1,961	1,881	1,828
Current cost information:					
Net income (loss)	(46)	(9)	12	25	80
Net income (loss) per share of common stock	(1.77)	(.33)	.47	.95	3.10
Net assets at year-end	2,377	2,290	2,196	2,064	1,915
Increase (decrease) in the current costs of merchandise inventories and property, net of the increase due to general inflation	10	(38)	59	100	*
Other information:					
Gain from the decline in purchasing power of net monetary liabilities	214	230	157	120	84
Cash dividends per share of common stock	2.60	2.95	2.91	2.99	2.97
Market price per share of common stock at year-end	29.85	37.04	48.96	54.87	70.97
Average Consumer Price Index	246.8	217.4	195.4	181.5	170.5

Note: Dollars are in millions except per share figures.
*Information impracticable to obtain.

Note N

Financial Information by Geographic Area (thousands)

	United States*			Canada			Overseas		
	1980	1979	1978	1980	1979	1978	1980	1979	1978
Sales	$ 11,518,993	$ 10,765,831	$10,033,693	$2,190,917	$1,865,524	$1,648,822	$ 1,392,763	$ 1,086,506	$ 868,054
Gross profit	2,576,021	2,342,298	2,228,119	448,886	373,159	328,439	260,625	208,530	164,940
Operating and administrative expenses	2,424,175	2,147,143	1,971,271	359,576	301,076	261,870	216,876	172,196	138,808
Income before provision for income taxes	70,283	122,047	198,242	89,553	70,693	56,147	34,076	32,039	22,329
Provision for income taxes	18,735	47,077	88,852	42,761	31,648	28,982	13,048	2,731	12,766
Net income	51,548	74,970	109,390	46,792	39,045	27,165	21,028	29,308	9,563
Total assets	2,463,521	2,345,006	2,180,067	537,088	488,403	450,121	338,223	267,359	205,579
Net working capital (deficit)	(32,022)	(17,374)	80,602	160,086	154,638	144,993	(15,315)	(10,670)	(12,402)
Stockholders' equity	566,909	567,036	560,297	390,347	353,489	312,530	106,842	92,089	63,547

*Reflects the LIFO method of valuing certain inventories.

Note O **Quarterly Information** (Unaudited)

	First 12 Weeks			Second 12 Weeks			Third 12 Weeks			Last 16/17 Weeks		
	1980	1979	1978	1980	1979	1978	1980	1979	1978	1980	1979	1978
Sales	$3,255,936	$3,029,772	$2,815,033	$3,352,564	$3,130,649	$2,916,519	$3,491,539	$3,199,454	$2,901,941	$5,002,634	$4,357,986	$3,917,076
Gross profit	679,185	644,974	594,740	743,573	685,059	641,449	768,161	681,502	628,555	1,094,613	912,452	856,754
Net income	12,457	23,094	25,168	37,722	42,516	41,329	27,291	41,306	31,724	41,898	36,407	47,897
Net income per share	.48	.88	.97	1.44	1.63	1.58	1.05	1.58	1.22	1.60	1.40	1.83
Dividends paid per share	.65	.65	.55	.65	.65	.55	.65	.65	.55	.65	.65	.65
Market price range of common stock	36¼ - 27½	44 - 40¼	41¼ - 35⅜	33¾ - 27⅝	44 - 34⅜	42¾ - 38¼	34¾ - 30	41¼ - 36	46 - 38¼	34¼ - 26	39¾ - 33⅝	46 - 38¼

Note: Dollars are in thousands except per share figures. Dividends are for calendar quarters.

Accountants' Report **Peat, Marwick, Mitchell & Co.**

To the Board of Directors and Shareholders
of Safeway Stores, Incorporated:

We have examined the consolidated balance sheet of Safeway Stores, Incorporated and subsidiaries as of January 3, 1981, December 29, 1979 and December 30, 1978 and the related consolidated statements of income and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Safeway Stores, Incorporated and subsidiaries at January 3, 1981, December 29, 1979 and December 30, 1978 and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

One Kaiser Plaza
Oakland, California 94612
March 6, 1981

Management's Responsibility for Financial Statements

The consolidated financial statements of Safeway Stores, Incorporated and its subsidiaries have been prepared in accordance with generally accepted accounting principles applied on a consistent basis and include amounts that are based on Management's best estimates and judgments. Management is responsible for the integrity and objectivity of the data in these statements. Financial information elsewhere in this Annual Report is consistent with that in the financial statements.

To fulfill its responsibilities, Management has developed and maintained a strong system of internal accounting controls. There are inherent limitations in any control system in that the cost of maintaining a control should not exceed the benefits to be derived. However, Management believes the controls in use are sufficient to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that the financial records are reliable for preparing the financial statements. The controls are supported by careful selection and training of qualified personnel, by the appropriate division of responsibilities, by communication of written policies and procedures throughout the Company, and by an extensive program of internal audits.

Peat, Marwick, Mitchell & Co., independent certified public accountants, whose report follows the consolidated financial statements, are engaged to provide an independent opinion regarding the fair presentation in the financial statements of the Company's financial condition and operating results. They obtain an understanding of the Company's systems and procedures and perform tests of transactions and other procedures sufficient to provide them reasonable assurance that the financial statements are neither misleading nor contain material errors.

The Board of Directors, through its Audit Committee composed of outside Directors, is responsible for assuring that Management fulfills its responsibilities in the preparation of the financial statements. The Board, on the recommendation of the Audit Committee and in accordance with stockholder approval, selects and engages the independent public accountants. The Audit Committee meets with the independent accountants to review the scope of the annual audit and any recommendations they have for improvements in the Company's internal accounting controls. To assure independence, the independent accountants have free access to the Audit Committee and may confer with them without Management representatives present.

Directors and Officers

Directors

John F. Bookout
President & Chief Executive Officer
Shell Oil Company

Percy Chubb, III
Senior Vice President
The Chubb Corporation
(Property and Life Insurance)

Charles de Bretteville
Retired Chairman and
Chief Executive Officer
The Bank of California, N.A.

Malcolm P. Grover
Retired Senior Vice President

Edward N. Henney
Senior Vice President

Mary Gardiner Jones
Vice President — Consumer Affairs
Western Union Telegraph Company

Marjorie S. Kinney
Senior Vice President
Beverly Hills Savings

Roger D. Lapham, Jr.
Chairman & Managing Director
RAMA Corporation Ltd
(Insurance Brokerage)

Dale L. Lynch
President and Chief Operating Officer

Merrill L. Magowan
Vice President
Merrill Lynch, Pierce, Fenner &
Smith Incorporated

Peter A. Magowan
Chairman and Chief Executive Officer

W. S. Mitchell
Chairman of the Executive Committee

James A. Rowland
Senior Vice President — Retail

William H. Webster
President
Webster Feed Lots

Brayton Wilbur, Jr.
Executive Vice President
Wilbur-Ellis Company
(Importing & Exporting)

W. Maurice Young
Chairman and Chief Executive Officer
Finning Tractor and Equipment
Company, Ltd
(Caterpillar Dealership)

Executive Officers

Peter A. Magowan
Chairman
and Chief Executive Officer

Dale L. Lynch
President
and Chief Operating Officer

Clifford L. Gant
Vice President
Controller and Treasurer

Edward N. Henney
Senior Vice President
Supply Operations

Philip G. Horton
Vice President
Real Estate, Industrial Design
and Construction, Retail Engineering,
Warehouse and Transportation Services

Neils V. Lawson
Vice President
Management Information and Services

John L. Repass
Senior Vice President
Personnel and Industrial Relations

James A. Rowland
Senior Vice President — Retail

Harry D. Sunderland
Senior Vice President — Finance

Robert J. Van Gemert
Senior Vice President — Law
Secretary and General Counsel

Other Officers

Vice Presidents — Retail
John Bell
Burton R. Bolesworth
Donald R. Cannon
John A. Cartales
Gerald V. Curtright
Carey A. Ford
Allen Francis
Albert J. Fulton
Donald Gates
Horace A. Justice
John S. Kimball
William M. Langley
Gene J. Lawson
William D. Lowe
Fred E. MacRae
William H. Maloney
Pete P. Martin
John R. Maxwell
Donald J. Phillips
Sam E. Raburn
Donald J. Smith
James R. Smith
Eldon W. Starkey
Ralph C. Ward
John W. Warthan
Forrest Woolery

Vice Presidents — Supply
Loyd J. Fox
Roland Frederick
John D. Lyding
Harold T. Nelson
Walter J. Schoendorf
Thomas C. Terry

Vice Presidents — Service
Paul A. Baumgart
Gerald E. Brown
Gaylord H. Hanson
Gordon W. Jones
Milton K. Kegley
William W. Liedtke
Robert M. Lyness
George D. Marshall
Calvin P. Pond
John L. Prehn
John H. Prinster
Frank D. Srubar
Patrick S. Totman
Ronald F. Zachary

Foreign Subsidiary Operations

Canada Safeway Limited

A. G. Anselmo
Chairman,
President and Chief Executive Officer

Vern E. Fahey
Vice President and Retail Division Manager

Norman D. Fingler
Vice President and Retail Division Manager

R. F. Hendy
Vice President and Retail Division Manager

Robert H. Kinnie
Vice President and Retail Division Manager

N. M. Knebel
Vice President and Retail Division Manager

D. L. Olson
Vice President and Retail Division Manager

Safeway Food Stores Limited
(United Kingdom)

T. E. Spratt
Chairman,
Managing Director and Retail Division Manager

Australian Safeway Limited

J. W. R. Pratt
Chairman,
Managing Director and Retail Division Manager

"Safeway" Supermarkt GmbH
(West Germany)

Manfred J. Filzek
Geschaftsfuhrer and Retail Division Manager

Johs. Esmarch's Eftf. A/S (Denmark)

Niels Norregaard
General Manager

Note: Above listings include certain changes made since year-end.

Executive Officers

A. *Peter A. Magowan, John L. Repass and Robert J. Van Gemert*

B. *Dale L. Lynch and James A. Rowland*

C. *Philip G. Horton and Edward N. Henney*

D. *Clifford L. Gant, Harry D. Sunderland and Neils V. Lawson*

A

B

C

D

Safeway Produce A Tradition of Excellence

Safeway pioneered field buying in the 1930s and has refined it to a greater extent than any other firm in the industry.

At any time of year shoppers can choose from an extensive array of fresh fruits and vegetables—as many as 150 varieties—in a Safeway produce department. This constant cornucopia hasn't always been so readily available, however. During winter in 1926, the year we were incorporated, consumers could select only apples, bananas and oranges from the fruit stands at their corner grocery stores. The selection of vegetables was also limited, and quality and size of all commodities were often inconsistent.

Today, in addition to a much wider assortment of seasonal domestic items, even in mid-February Safeway produce fixtures may display exotic imports such as kiwi fruit, papayas and mangos alongside more common but out-of-season items such as fresh strawberries and cherries.

Seasonal fluctuations have become less of a factor in produce merchandising, thanks in part to advances in the agricultural sciences which have produced sturdier crops and extended the growing season in some areas. Also, other countries such as Chile and New Zealand, having improved their own growing techniques, now send us fresh peaches, nectarines, grapes and other summer fruits during our off season.

But the real key to the abundant, year-round selection of fresh produce at Safeway is our procurement system: an extensive network of field buying offices located in the major growing areas of the United States and linked to our Retail Divisions by a state-of-the-art, private line telecommunications system. Safeway pioneered field buying in the 1930s and has refined it to a greater extent than any other firm in the industry. By having our own experienced buyers on hand where the crops are harvested, we can assure our customers that only Safeway-quality produce reaches our stores.

If adverse weather affects a crop, our field buyers and divisional merchandisers are among the first to know and can quickly make arrangements with alternate supply sources. By the same token, should surplus harvests or other conditions threaten growers with ruinous losses, we stand ready to promote consumption of the product. Safeway initiated the country's first Farmer-Consumer campaign nearly 50 years ago and continues to enjoy excellent relations with the 6,000 growers and shippers with whom we deal. They know our standards are high because we're acting as the consumer's purchasing agent, but they also know they will be treated fairly.

Immediately after purchase, fresh fruits and vegetables are transported under refrigeration to our produce warehouses in the Retail Divisions or, in some cases, to our pre-packaging plants. Once in the stores these products receive more special attention to preserve freshness and quality. Under the watchful eyes of skilled employees, highly perishable items such as lettuce and other salad vegetables are kept crisp and appealing. Visual impact is important, too; displays are carefully arranged for mass effect and color contrast.

As part of our ongoing efforts to maintain Safeway's reputation for outstanding fruits and vegetables, in November we set up a corporate Produce Merchandising Division to capitalize on new opportunities for increased sales. One of its primary functions is to assist our Retail Divisions and procurement operations in attaining a high priority corporate objective: to offer the most extensive variety of superior produce in each of our market areas. The new Division is also stepping up efforts to expand the selection of florist-quality flowers and plants in our stores.

A

B

C

D

A. *Robert G. Backovich, head of our new Produce Merchandising Division, discusses Safeway quality specifications with a produce department manager.*

B. *California's fertile valleys yield a virtually endless harvest. Safeway has field buying offices throughout the state and in other major growing areas.*

C. *Attractive, well maintained displays in the store are the end result of a produce supply and merchandising program that is unmatched in the supermarket industry.*

D. *Superior fruits and vegetables at competitive prices... Safeway is the place for fresh produce.*

Safeway Stores, Incorporated
Oakland, CA 94660

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